



REVIEW OF THE DEPARTMENT OF FIRE PROGRAMS

AS OF AUGUST 2018

Auditor of Public Accounts
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EXECUTIVE SUMMARY

The Auditor of Public Accounts performed an Internal Control Questionnaire Review of the Department of Fire Programs (Fire Programs). Results of these reviews are normally communicated through a letter to management. However, because the results of our review of Fire Programs were more significant than would typically be communicated in the standard letter to management, this special report was deemed necessary.

The purpose of the review was to evaluate if Fire Programs has developed adequate internal controls over significant organizational areas and activities and not to express an opinion on the effectiveness of internal controls. We determined that Fire Programs does not have a sufficiently strong internal control environment. The lack of a strong control environment has led to many of the internal control concerns that we noted. Below are the areas of concerns and recommendations in this report.

- Control Environment
- Oversight to Localities
- Management of Funds
- Vehicles
- Travel
- Assets
- Tuition Reimbursements
- Signature Stamps
- Agency Risk Management and Internal Control Standards
- Agreements with Other Agencies
- Internal Audit
- Executive Leave
- Reconciliations
- Information System Security

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INTRODUCTION

The Auditor of Public Accounts (APA) recently developed a new approach for auditing agencies that are not required to be audited every year, which we refer to as “cycled agencies.” The Department of Fire Programs (Fire Programs) falls into the cycled agency category, and is part of this new approach. Under this approach, APA sends a questionnaire regarding internal controls to the agency at least once every three years. We then review the responses to the questionnaire, and design and perform procedures based on the results. At the conclusion of these reviews, we typically provide a letter to management stating the results of the review of internal controls and highlighting any key areas of interest. However, because the results of our most recent review of Fire Programs were more significant than would typically be communicated in the standard letter to management, this special report was deemed necessary.

First Review

In June of 2017, APA attempted to perform an Internal Control Questionnaire Review for Fire Programs. However, management was unable to accommodate this review or provide any policies and procedures over the agency’s critical business processes. In addition, Fire Programs had high turnover in the fiscal department around this time, which limited the agency’s ability to execute control activities. We determined that Fire Programs did not have adequate staff in place with sufficient knowledge of the agency to ensure an appropriate internal control environment. For these reasons, we issued a [letter](#) stating that we were unable to perform any further procedures at that time.

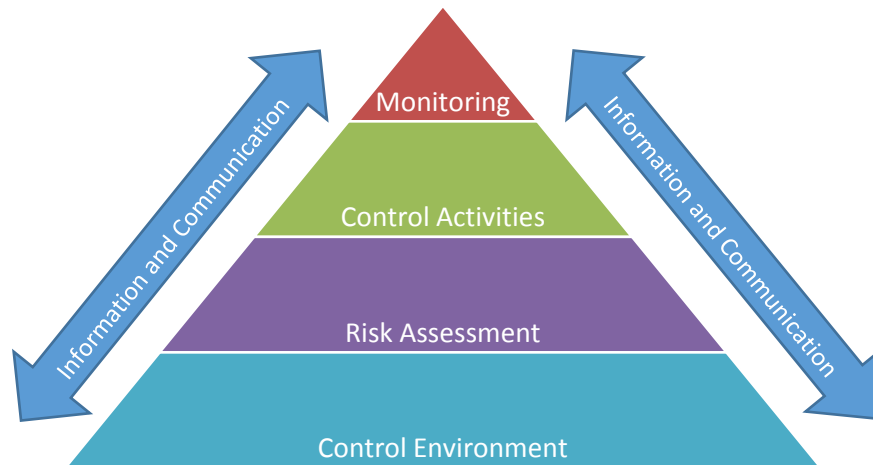
Second Review

We returned to Fire Programs in June of 2018 to perform the delayed Internal Control Questionnaire review. The purpose of this review was to evaluate if the agency had developed adequate internal controls over significant organizational areas and activities and not to express an opinion on the effectiveness of internal controls. Once this review began, we received numerous complaints and allegations from current employees, former employees, and anonymous individuals related to management and internal controls at Fire Programs. We followed up on each complaint to determine what could be substantiated, and noted any weaknesses identified as a result of our work in this report. In following up on each complaint, we reviewed activity ranging from fiscal year 2015 through fiscal year 2018. The expanded procedures we performed were not a full audit of the agency.

COMMENTS TO MANAGEMENT

Control Environment

Fire Programs does not have a sufficiently strong internal control environment. The control environment is defined as the set of policies, standards, processes, and structures that provide the basis for maintaining an effective system of internal controls within an organization. As illustrated below, the control environment is the foundation for all other components of internal control.



Management establishes and sets expectations for the control environment, including promoting a positive culture and attitude regarding the importance of maintaining controls. This is often referred to as “the tone at the top.” In recent years, Fire Programs’ control environment has significantly weakened. Several factors that have caused the decline in the control environment include, but are not limited to:

- *A lack of leadership from prior management:* We noted many internal control issues that began with the prior Executive Director. Some of these issues have been addressed, while others continue to be a problem. Continuing issues are noted throughout the remainder of this report.
- *Inconsistent application of state policies and procedures amongst all employees:* We noted instances of some employees, including members of current upper management, not adhering to state policies and procedures over travel and tuition reimbursements. This does not set the proper example or tone for employees to follow.
- *Significant employee turnover in recent years:* Forty-one percent of current employees started with the agency within the last three years.

- *A lack of formalized policies and procedures for all critical business processes:* We noted many critical areas where no policies and procedures exist, including fuel for agency vehicles, inventory, capital assets, and employee reimbursements. In addition, in areas where policies and procedures do exist, many have not been updated for several years and; therefore, are outdated. This includes travel, small purchase charge cards, and accounting functions. The lack of policies and procedures leads to inconsistencies in the way transactions are processed and duties are performed throughout the agency.
- *Low employee morale:* We conducted interviews with numerous employees and noted concerns with morale with almost all employees interviewed. Many employees stated that they felt they did not have an avenue to get their concerns addressed, and others felt they would be retaliated against if they spoke out about their concerns. This issue may be further evidenced by the fact that Fire Programs has a disproportionately large number of fraud, waste, and abuse complaints for the size of the agency. Our office also received a significant number of complaints from employees, former employees, and anonymous individuals during our review. While all agencies will have complaints from time to time, the significant number and common themes are concerning and should be taken seriously.
- *Decentralized accounting and administrative functions:* Procurement and other administrative functions are decentralized by department and field office, which is unusual for an agency of Fire Programs' size. In addition, there has not been proper training or guidance to ensure consistency within the agency for individuals performing these tasks. Further, Fire Programs has approximately 30 employees with assigned small purchase charge cards. This is high for an agency with approximately 70 employees.
- *A lack of collaboration between different departments:* As noted later in the report, several departments within Fire Programs have their own asset listings. These listings do not reconcile to one another, nor do they reconcile to the accounting department's listing. We noted instances of assets being disposed of where accounting was not made aware of the disposal in order to remove the asset from the system. In addition, we were informed that some departments are creating their own detailed accounting reports due to lack of transparency from the accounting department.
- *A lack of succession planning and backups:* We noted a member of upper management was on extended leave, non-working status, during fiscal 2018; however, there were several indications of the individual working while on leave, including logging into the Commonwealth's accounting and reporting system to approve transactions and keycard entries into the building. There did not appear to be backups in place for some of the duties assigned to this position.
- *Management's reactive approach to addressing issues with internal controls:* Management does not assess or monitor the overall internal control environment, but rather deals with

each problem individually as they occur. This is evidenced by a lack of an overall risk assessment as well as a lack of monitoring of funds given to localities.

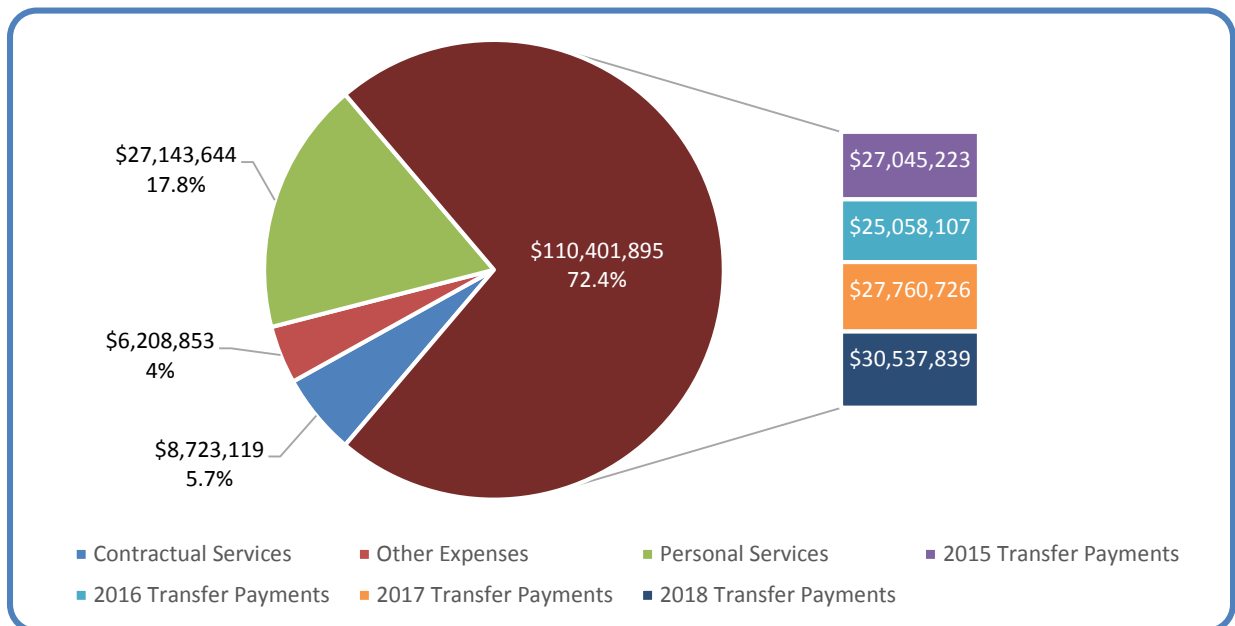
The lack of a strong control environment and internal control structure is a major factor leading to the internal control concerns noted throughout this report. In addition, the current environment with the significant lack of internal controls creates a greater opportunity for fraud or errors to occur. Management should take the necessary steps to strengthen the control environment by creating a culture and attitude that supports the importance of maintaining internal controls. This would include having established policies and procedures for all critical business processes, ensuring that everyone including top management consistently follow the policies and procedures, and having open lines of communication for employees to be able to report concerns.

Oversight to Localities

Fire Programs does not provide proper oversight and monitoring of the funds provided to localities to ensure that funds are spent in accordance with grant and legislative requirements. Funding to localities is the most significant expense for Fire Programs, accounting for over 70 percent of Fire Programs' annual expenses. Localities are required to submit annual reports to Fire Programs to state how funds they receive from Fire Programs are spent. However, this type of reporting is an "honor system," since there is no accountability to ensure the reports are accurate. Fire Programs has not actively monitored or audited locality use of these funds since 2015. As noted in the chart below, this has resulted in over \$110 million in funds being disbursed in just the last four years with no assurance that the funds were spent in accordance with grant and legislative requirements.

**Expenses by Type
Total for Fiscal Years 2015-2018**

Chart 1



Management's assertion is that it is not Fire Program's responsibility to actively monitor the funds provided to localities. Instead, they take a reactive approach and rely on reports from outside entities, such as the Office of the State Inspector General and local CPA firms, to alert them of any locality that may be misusing funds. Management should implement a formalized process for monitoring the funds provided to localities to ensure that the funds are spent in accordance with grant and legislative requirements.

Management of Funds

Fire Programs did not properly manage all of the funds for which they were the custodian. Instances of mismanagement of funds that we noted include:

- Code of Virginia Section 9.1-211 states that fees assessed under this chapter shall be deposited into a special fund and used by the activities of the State Fire Marshal. During our review, Fire Programs had no tracking mechanism to ensure that funds collected for this purpose were used for the purposes outlined in the Code of Virginia.
- Fire Programs requested general funds in fiscal year 2016 for the purchase of a computer system; however, did not actually make any payments for this computer system until fiscal 2018. Fire Programs had to request additional general funds for this computer system due to the fact that the original funds requested and received were not spent on the system but rather on other expenses. During fiscal 2019, Fire Programs had to negotiate to reduce the scope of the system down to something that is affordable. As a result, at the time of our review, the system was still not in use.
- Fire Programs paid airline tickets and conference fees for individuals to attend a conference related to this new computer system. However, some of those individuals did not attend the conference.

Several of these issues began under prior management. Current management appears to be working to address these issues. Management should ensure that controls are put in place to ensure that all funds are properly managed and accounted for so that these issues do not occur again in the future.

Vehicles

Fire Programs does not have sufficient internal controls over agency vehicles. We noted the following concerns:

- Fire Programs does not have a policy or perform any analysis to determine whether purchasing vehicles or leasing vehicles is more cost effective.

- Fire Programs assigns vehicles to numerous employees and does not have a policy for who should be assigned a vehicle nor do they perform any analysis to determine if it is cost effective to assign a vehicle to an individual.
- Fire Programs does not consistently follow the regulations for commuting in state vehicles. Some individuals were allowed to use vehicles to commute as a perk while others paid a commuting fee. In addition, management could not confirm that federal income tax was withheld for employees who were using an agency vehicle for commuting, as required by the Internal Revenue Service.
- Fire Programs does not properly track usage of vehicles and fuel cards, including mileage/odometer readings.

Management should ensure the agency has sufficient internal controls over agency vehicles in accordance with the Commonwealth Accounting Policies and Procedures (CAPP) Manual.

Travel

Fire Programs does not have policies to ensure that employees' travel is done in the most cost effective manner for the Commonwealth. In addition, Fire Programs does not consistently follow the travel regulations outlined by the Department of Accounts (Accounts) in the CAPP Manual. We noted the following concerns related to travel:

- Employees requesting and receiving reimbursement for mileage for their personal vehicle even though they are assigned a state vehicle for their business purposes.
- Employees do not consistently perform a cost benefit analysis to determine whether an Enterprise vehicle is more cost effective than using a personal vehicle.
- Employee expense reports related to travel did not break expenses out by day, as required per the CAPP Manual.
- Fire Programs does not enforce timeliness of employee travel reimbursements; many for the Chief Administrative Officer were submitted beyond the CAPP Manual requirement of 30 days.

Management should create policies and procedures to ensure travel is done in the most cost effective manner and in accordance with the CAPP Manual. Management should also enforce these policies for all employees.

Assets

Fire Programs does not maintain proper internal controls over its assets. We noted the following concerns related to assets:

- Different departments maintain listings of what vehicles the agency owns and to whom the vehicles are assigned. The vehicle listings do not reconcile to one another or to the Commonwealth's fixed asset system.
- The agency does not properly track assets with individual values less than \$5,000, including tracking to whom those assets are assigned.
- Asset listings contained assets that had been surplus or damaged and should have been removed.
- There were inconsistent processes for tracking assets across departments.

Management should ensure the agency is properly tracking and safeguarding assets in accordance with the CAPP Manual.

Tuition Reimbursements

Fire Programs has processed reimbursements to employees for tuition which were not in compliance with the Department of Human Resource Management (DHRM) policy 5.10 or internal policies. DHRM's policy, as well as Fire Programs own internal policy for tuition reimbursement, states that all requests for tuition reimbursement must be made prior to the beginning of the class. However, 100 percent of the reimbursements we reviewed were submitted well after the class began with some being submitted after the class ended. Also, management could not confirm that federal income tax was withheld for employees who received tuition reimbursement greater than the federal limit, as required by the Internal Revenue Service. Management should ensure all employees are adhering to their own policy and DHRM policy for all tuition reimbursements. In addition, management should ensure the agency is properly withholding income tax, as required.

Signature Stamps

Fire Programs is negating their internal control structure with the use of signature stamps or copied signatures. We noted that signature stamps are being used to indicate approval on numerous different types of transactions including but not limited to personnel-related forms, travel reimbursements, small purchase charge card reconciliations, and employee tuition reimbursements. We also noted that while the signature is meant to convey approval of the document or transaction, the person whose signature is being used is not the person who is using the stamp. It appears that he/she may never have even seen the document or transaction that he/she is shown as approving. We also noted that the dates documented beside the signature stamps did not always agree with the usual

handwriting of the individual whose signature was on the stamp. The rampant use of signature stamps increases the risk of fraud including the risk that individuals could approve their own transactions. Fire Programs should immediately stop the use of signature stamps and ensure that all transactions are approved by the individual who has the actual authority to do so and should retain proof of all approvals.

Agency Risk Management and Internal Control Standards (ARMICS)

Fire Programs did not comply with all ARMICS requirements for the fiscal year 2017 certification. Documentation provided did not meet the following minimum requirements prescribed by Accounts:

- Identification of fraud risks
- Agency Strengths, Weaknesses, Opportunities, and Threats analysis
- Documentation of the key elements and assessments of various internal control components (i.e., Control Environment, Information and Communication, Monitoring, Existing Control Activities)

In addition, Fire Programs was unable to provide evidence that all required testing of controls was performed. Fire Programs should ensure that all ARMICS processes are being performed in compliance with the CAPP Manual and that all documentation to support ARMICS processes is retained.

Agreements with Other Agencies

Fire Programs does not maintain copies of agreements with other agencies. Fire Programs has contracted with the Department of Health, DHRM, the Department of Emergency Management, and the Department of Juvenile Justice to perform various services, but does not maintain updated copies of the memorandum of understanding (MOU) with these agencies in accordance with CAPP Manual Topic 10305. Without the MOU, Fire Programs cannot be clear on what duties the other agency as well as Fire Programs should be performing. In addition, Fire Programs was not able to furnish any documentation related to their annual line of credit with Accounts. Maintaining these agreements is especially important given the significant turnover at the agency over the last few years. Management should collaborate with every agency that they have agreements with and ensure that the agreements are up-to-date. Management should also retain copies of these agreements.

Internal Audit

Fire Programs currently has a vacant Internal Audit position. We noted certain concerns with the structure of the previous Internal Audit position. Going forward, management should consider the following when filling this position. In order to be effective, an Internal Auditor should be independent and not influenced by members of management. Being independent includes not performing any accounting or other administrative functions, whether it be in a primary or back-up role. In addition, the Internal Auditor should report to, and have direct access to bring concerns to the Agency Head.

Investigating state fraud hotline reports should be the responsibility of the Internal Auditor. Fire Programs should also ensure that a work plan and charter are adopted for the Internal Audit position. The work plan should have an element of unpredictability in order for the Internal Audit function to be effective.

Executive Leave

Fire Programs is not complying with DHRM's Executive Leave policies. DHRM's policies require "at-will" employees to obtain advance approval to use leave, maintain accurate leave records, and certify, in writing, that they did not exceed their established leave limit during the specified time period. Fire Programs was not able to provide evidence of approvals of leave or that the leave was properly certified. Management should ensure that "at-will" employees comply with the Executive Leave policies.

Reconciliations

Fire Programs is not following the CAPP Manual for reconciliations between agency records and the Commonwealth's accounting and reporting system. The reconciliation is prepared in accordance with the CAPP Manual; however, there is no review of the reconciliation. Management should ensure all reconciliations are reviewed by someone other than the preparer, and should retain evidence of this review.

Information System Security

During the course of our information systems security review, we observed certain opportunities in the following areas for Fire Programs to strengthen controls and align its information security program with the Commonwealth's Information Security Standard, SEC 501:

- Create IT Security Policy and Procedures
- Improve Process over Service Providers
- Improve Risk Management and Contingency Documentation
- Improve Logging and Monitoring Process
- Strengthen Security Awareness and Training Policy and Oversight
- Improve Backup and Restoration Documentation and Process
- Consider Technology Versions Governance

We identified and communicated the details of these control weaknesses to management in a separate document marked Freedom of Information Act (FOIA) Exempt under Section 2.2-3705.2 of the Code of Virginia due to it containing descriptions of security mechanisms. Management should dedicate the necessary resources to further evaluate and implement the controls described in the FOIA Exempt recommendation and incorporate them into its established information security program.



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Commonwealth of Virginia

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November 2, 2018

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission

We have performed a review of the **Department of Fire Programs** and are pleased to submit our report entitled **Review of the Department of Fire Programs**.

We discussed this report with management on October 30, 2018. Management's response to the findings identified in our review is included in the section titled "Agency Response." We did not audit management's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

JDE/vks



COMMONWEALTH of VIRGINIA

Virginia Department of Fire Programs

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November 14, 2018

Jennifer D. Eggleston, Audit Director
Auditor of Public Accounts
101 North 14th Street
Richmond, Virginia 23219

Dear Ms. Eggleston,

VD FP appreciates the opportunity to review your Internal Control Questionnaire Results letter. The agency (VD FP) takes very seriously the issues APA has pointed out for improvement. In order to mitigate each of the recommendations you cited during your review conducted from June through August 2018, VD FP will be addressing the specific areas noted. We have discussed specific items mentioned in the report with the audit team and appreciate the candid dialog and recommendations.

In the Control Environment section, APA pointed out concerns in areas to include employee turnover, critical business processes, employee morale, accounting and administrative functions, ARMICS, and risk assessment. The agency is committed to taking steps to strengthen our internal controls to address areas of deficit.

In addition APA pointed out several areas for improvement in the area of policies and procedures which covered ATL, budget, travel, MOU's and information system security. While some of these issues are a result of past practices, all will be reviewed and brought into compliance with state requirements and policies. The agency acknowledges the areas of IT vulnerability and has responded in a separate document a plan to address the areas of noted concern.

The Department of Fire Programs recognizes the importance of internal controls and compliance with all policy and procedures as outlined by the Commonwealth and will make every effort to come into full compliance of the recommendations noted during your most recent Internal Control Questionnaire (ICQ).

Sincerely,

Executive Director

DEPARTMENT OF FIRE PROGRAMS

As of June 20, 2018

Michael Reilly
Executive Director

Brook Pittinger
Deputy Executive Director